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Bruce K. Cox
Government Affairs Director

Suite 1000
1120 20th Street, N.W.
Washington, DC 20036
202 457-3686
FAX 202 457-2545
ATTMAIL !bkcox

September 21, 1995

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, D. C. 20554

Re: Ex Parte Meeting
RM 6956, Universal Service Fund and Lifeline Assistance

Dear Mr. Caton:

On, Thursday, September 21, 1995, Mr. J. Spurlock and I met with Mr. Kenneth P. Moran, Chief of the Accounting and Audits Division, within the Common Carrier Bureau, to discuss AT&T's thoughts on the use of Telecommunications Relay Services (TRS) interstate revenues as the basis for allocating the Universal Service Fund and Lifeline Assistance expenses among Interexchange Carriers (IXCs). The attachment was used as the basis of our discussion.

In accordance with Section 1.1206(a)(2) of the Commission's Rules, two (2) copies of this Notice are being submitted to the Secretary of the FCC.

Sincerely,

Bruce K. Cox

Attachment

cc: Mr. Kenneth P. Moran

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USF allocator based on Interstate Revenues benefits Consumers

- IXC's will more vigorously compete for 80 million customers after the allocator change (due to lower costs that will make them more attractive to IXC's)
- As competition heats up for low volume (\$1-\$10) customers, IXC's will have to develop innovative service offerings to attract and keep these customers, and competition will drive lower prices
- Significant consumer savings will be achieved
- A mechanism is already in place that will achieve these consumer benefits --- Telecommunications Relay Service (TRS) revenue allocator
- A revenue allocator is the most equitable method of funding USF and eliminates the government picking winners and losers

Low User Customers will be more Attractive to IXC's

- Reduces cost on all customers below \$25 revenue per month
- Raises more than a million customers above break even point for profitability
- More profitable customers will attract additional competition

Innovative Service Offerings will be more Attractive for all IXC's

- Pricing plans that stimulate infrequent users to call more often will be offered in the marketplace
- More service offerings that appeal to and attract low volume users can be brought to market
- Targeted marketing of low user segments increases as they become more desirable to serve
- Reducing the price misperceptions of the lower user segments through new pricing offers and customer awareness advertising becomes viable
- Retention programs that acknowledge loyalty to carriers can become feasible for lower user customers

Significant Consumer Savings will be Achieved

- By changing the USF/LA allocator the PCI in Basket 1 will be reduced by \$150 Million in 1996
- Without a change in the USF/LA Allocator and with an extension of the USF cap, it is estimated that Basket 1 PCI will increase by about \$26 million
- Without a change in the USF/LA Allocator and with no extension of the USF cap, it is estimated that Basket 1 PCI will increase by about \$71 million
- Competition for the more attractive customers will drive innovation and lower prices

A Mechanism is Already in Place that will Achieve these Consumer Benefits

- Telecommunications Relay Services (TRS) Interstate Revenues are now being used to allocate the subsidy for TRS among service providers
- TRS Interstate Revenues can be used as the basis for allocating the Universal Service Fund and Lifeline Assistance expenses among the IXC's
- NECA has support for continued TRS Administration
- NPRM focusing on size, targeting and mechanism of USF. Since the method of funding is as important as the level and targeting of the USF, and there is industry support for a revenue-based allocator, it is time for the FCC to implement a revenue allocator

A Revenue Allocator is the most equitable method of funding USF and eliminates the government picking winners and losers

- Telecommunications industry supports revenue allocation
- USF NOI Comments and Reply Comments support a competitively neutral revenue allocator
- FCC Fee Comments and Reply Comments request a revenue allocator as being competitively neutral
- Revenues reported by IXC's work well in TRS. There are growing concerns with PSLs.